

February 14, 2007

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WASHINGTON, DC- U.S. Rep. Charlie Melancon testified today before the House Committee on Small Business regarding the Small Business Association's faulty response to victims of Hurricanes Katrina and Rita. Rep. Melancon focused on the need for commonsense reforms and waivers of regulations that create unnecessary hurdles for small business owners trying to recover from the two devastating storms.

"We may never be able to pinpoint an exact number of jobs lost to inaction or a lack of assistance," said Rep. Melancon. **"However, I have witnessed many instances where small business owners have been frustrated to the point of giving up on the SBA, and I hope that we can work together to change the negative perception that currently exists towards SBA's programs and the entire Federal response."**

Rep. Melancon continued, **"SBA's unwillingness to immediately and effectively delegate responsibility to qualified lenders created a critical choke point in loan disbursements following the hurricanes."**

To address this issue, Rep. Melancon has signed on as an original co-sponsor for Rep. Richard Baker's (R-LA) *Small Business Disaster Response and Loan Improvements Act of 2007*.

This legislation, introduced today, will allow for larger maximum loan amounts and create a more streamlined application process by allowing private, SBA-approved banks to administer SBA loans.

Rep. Melancon made several other recommendations for improving the SBA's response to catastrophic disaster during his testimony today. These include:

- Encouraging Congress to examine the laws and regulations that currently govern the SBA's disaster loan programs in order to provide maximum flexibility in the administration of disaster loans. Specifically, home-grown and family-run businesses, such as those in the shrimping industry in South Louisiana, often do not fit the mold of current SBA loan qualifications and are denied assistance.

- Increasing the flexibility of SBA regulations following catastrophic disasters so that small business owners can apply for loans to expand or re-focus their existing businesses to adapt to the new environment and meet post-storm demands. Some businesses along the Gulf Coast were denied loans because the SBA judged their applications solely based on their pre-storm capabilities - not on the new realities they were trying to adjust to.

- Stop penalizing business owners who receive both SBA loans and homeowner assistance grants. Under current rules, if these homeowners qualify for Louisiana's Road Home rebuilding grants and loans from the SBA, they must use the Road Home money to pay back their SBA loans. Our homeowners need capital to rebuild their homes. Forcing them to repay loans with grant proceeds does not give them capital, it forces them to go elsewhere.

A copy of Rep. Melancon's testimony is below.

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House Small Business Committee

Full Committee Hearing: SBA's Response to the 2005 Gulf Coast Hurricanes

Good morning Chairwoman Velazquez and Members of the Committee. Thank you for the opportunity to speak about SBA's response to Hurricanes Katrina and Rita.

My Congressional district spans the destructive path of both these storms. Early on the morning of August 29, 2005, Hurricane Katrina made landfall in South Plaquemines Parish. Subsequent levee breaches flooded much of Plaquemines and St. Bernard Parishes, along with the City of New Orleans, and the communities of Lafitte and Grand Isle. Less than one month later, Hurricane Rita made landfall in Southwest Louisiana with much of the coastal areas already affected by Katrina receiving yet another un-needed and damaging blow, and then creating storm surges through all the coastal Louisiana parishes and into east Texas.

Today's hearing focuses on one of many facets of federal government failures, both before and after these storms. In the weeks and months following the storms, critical small business grant and loan assistance was delayed. Our economy continues to suffer as a result.

We may never be able to pinpoint an exact number of jobs lost to inaction or a lack of assistance. However, I have witnessed many instances where small business owners have been frustrated to the point of giving up on the SBA, and I hope that we can work together to change the negative perception that currently exists towards SBA's programs and the entire Federal response.

As time moves on, we are beginning to quantify some of the missed opportunities following the 2005 hurricane season. For instance, nine months after Katrina and Rita, in May 2006, the SBA had disbursed only 14% of the \$9.7 billion in loan dollars that were approved for disaster assistance. Even today, only 38% of loan applications have been approved and funded. After Hurricane Andrew, over 60% were approved.

Immediately following the storms an understaffed, poorly managed, and poorly trained -- particularly in customer service - SBA effectively discouraged small business owners from applying for business or home loans.

In December 2005, the backlog for loan verification and processing exceeded on average one and a half months. In most instances, the wait was much longer. Inadequate and inaccurate communication from SBA employees kept many customers from finishing applications. Furthermore, many clients lost paper business records in the storms, creating an additional hurdle for SBA employees that were not able to adjust for these storm-inflicted realities.

How do we make SBA better? One of the first issues that must be addressed is staffing. SBA's unwillingness to immediately and effectively delegate responsibility to qualified lenders created a critical choke point in loan disbursements following the hurricanes. To address this issue, today I am joining my colleague Congressman Richard Baker in introducing the "Small Business Disaster Response and Loan Improvements Act of 2007." This legislation will improve upon the less successful Gulf Opportunity Loan pilot program administered by the SBA, allowing for larger maximum loan amounts and creating a more streamlined application process that will be administered by SBA-approved lenders.

Beyond staffing problems, Congress must take a close look at the laws and regulations that currently govern the SBA's disaster loan programs. SBA's unwillingness or inability to provide maximum flexibility in the administration of disaster loans continues to hamper recovery efforts

in Louisiana. Specifically, home-grown and family-run businesses, such as those in the shrimping industry in South Louisiana, often do not fit the mold of current SBA loan qualifications. In the resourceful, self-sufficient economy in South Louisiana, oftentimes the best and only mechanic or tow-boat operator for these shrimping vessels are the owners themselves or their family members and fellow shrimpers. However, following Hurricanes Katrina and Rita, the SBA did not allow payments to family members or fellow shrimpers for the expense of removing the vessels from dry land. The money the SBA loaned shrimpers for mechanical repair, hull repair, net repair, and acquiring the needed fuel and supplies for shrimping was all important, but it didn't do owners much good if they didn't have the money to also get their vessels back into the water. Commercial fishermen should be able to apply for community express loans so they can get back to work.

In addition, SBA's current Physical Disaster Loan program allows for a waiver of the \$1.5 million loan limit. This waiver is reserved for businesses that are deemed to have been a major source of employment before the disaster. However, in disasters the magnitude of Katrina or Rita, SBA should also allow for waivers for businesses that will *become* a major source of employment following the storm. I am aware of instances where existing business owners could have greatly expanded or re-focused their existing businesses to meet strong post-storm demand. However, because these businesses did not fit the normal SBA disaster rules, they were turned away when they applied for loans, causing untold hardship on many businesses and even forcing many to close.

A final recommendation for making the current and future disaster recoveries better would be to allow more flexibility for loan use in conjunction with the Homeowners Assistance Grants. Homeowners in South Louisiana who took the initiative to apply for SBA loans following the hurricanes are now being penalized for this action. Under current rules, if these homeowners qualify for Louisiana's Road Home rebuilding grants and loans from the SBA, they must use the Road Home money to pay down their SBA loans. This leaves these storm victims with a larger financial burden than they would have otherwise, and no better off, if not worse off, than before they applied to SBA for the loan.

In closing, I want to thank you, Chairwoman Velazquez and the Committee for the opportunity to testify this morning. I look forward to working with you and our colleagues to enact common sense, meaningful reform to current SBA disaster loan programs.